Homeownership Affordability Act of 2011

Senators Robert Menendez (D-NJ) and Johnny Isakson (R-GA)

The Problem

If Congress does not extend the current loan limits before September 30th, 2011, the loan limits for the Federal Housing Administration (FHA) and Fannie Mae and Freddie Mac (the GSEs) will expire and be automatically lowered in 669 counties across 42 states. Similarly, if Congress does not extend the current loan limits for the Veterans Administration (VA) before December 31, 2011, those loan limits will also expire and be automatically lowered. These expirations will make a weak housing market even weaker, and will make it harder for middle class homebuyers in 42 states to get mortgages and buy homes when credit is already tight.

The Solution

The bipartisan Loan Limit Extension Act of 2011 would extend, and not change, the current maximum loan limit of $729,750 for two years through December 31, 2013 for FHA and GSE insured home loans. VA loans would be extended through the same date.

Boosting the Weak Housing Market

The current limits have been in place since early 2008 to aid the weak housing market. Because the housing market is even weaker today and continues to decline, it would be a terrible decision to remove government support of the housing market at this time. If the limit is not extended, the average decline in loan limits would be more than $68,000 per county, and loan limits for FHA, the GSEs and the VA will all drop to 115% of local area median home prices with a cap of $625,500. The current loan limits for the FHA and GSEs are for 125% of local area median home price with a cap of $729,750.

The effects of a possible expiration could be dramatic – access to mortgage credit will be significantly impeded for many homeowners and sellers across the country, at a time when the housing market continues to decline. Even the past year, new house prices fell another 7.5% according to CoreLogic.[1]

Raises Revenue

The Homeownership Affordability Act of 2011 is paid for by increasing the guarantee fees charged on the loans themselves. Guarantee fees, or "g-fees", are charged by loan guarantors such as the GSE's to lenders for bundling, servicing and selling the mortgage-backed securities to investors and are similar to insurance. CBO estimates that the GSE loan limit extension has a $285 m mandatory cost and the VA loan limit extension has a $51 m mandatory cost, but the FHA loan limit extension has a $194 m discretionary <u>savings</u>. The mandatory costs of the GSE

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[1] http://www.nytimes.com/2011/07/17/business/second-lien-loans-may-prompt-new-losses-for-banks.html?pagewanted=print

and VA loan limit extensions (total $336 m) are offset by an increase of $335 m in guarantee fees. And the bill also has $194 m in discretionary savings from the FHA loan limit extension.

Also, the bill will likely help increase returns to taxpayers since FHA audits for the past decade have stated that larger loans actually perform better and default at significantly lower rates than smaller loans, so allowing the larger loans would actually improve returns to taxpayers.

Supporters

- National Association of Realtors
- Mortgage Bankers Association
- National Association of Homebuilders